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INFO RHEFDIA/DIA WASHINGTON DC
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RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//
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RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
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RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
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RHEFDIA/DIA WASHINGTON DC//DHO-3//
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RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 9898
RUEHNE/AMEMBASSY NEW DELHI 4629
RUEHBUL/AMEMBASSY KABUL 0014
RUEHLH/AMCONSUL LAHORE 6951
RUEHKP/AMCONSUL KARACHI 1288
RUEHPW/AMCONSUL PESHAWAR 5878
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
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SUBJ: BI-WEEKLY REPORT ON THE ECONOMIC ISSUES, 11 MARCH 2009

TOP STORIES

1. (SBU) The GOP increased the power tariff for domestic, commercial and industrial consumers effective February 25. Agriculture consumers and those who use less than 50 units per month are exempt from this increase. The consumers of the Electric Supply Companies in Peshawar, Gujranwala, Lahore, Faisalabad, Multan, Hyderabad, Quetta, and Karachi will face the brunt of this increase. Finance Advisor Shaukat Tarin had announced that the power tariff would be raised before April, but at the insistence of the World Bank, the GOP went forward with the current increase. The GOP and the IMF agreed in their letter of intent that "the average base [power] tariff will be further increased during 2008-09 according to a schedule to be agreed with the World Bank by end-December 2008."

12. (SBU) The Chairman of the Trading Corporation of Pakistan (TCP) has been replaced, and the Ministry of Commerce has prohibited the TCP from inviting further bids on the import of refined sugar. The Ministry of Commerce has stepped in following complaints relating to the TCP tender (reftel), as importers accused the TCP of issuing a tailor-made tender to favor a particular Gulf-based exporter of sugar. On March 10, TCP Chairman Mohammed Saeed was replaced by Saeed Ahmad Khan, a former Additional Secretary at the Prime Minister's Secretariat. (Comment: Post sources indicate that the Chairman was removed because of alleged fraudulent practices though, officially, the GOP has not provided any explanation for his removal. He has yet to be assigned to another position within the GOP. The newly appointed Chairman has a solid reputation within the TCP. End comment.)

13. (SBU) Pakistan may scrap its Monsanto biotech (BT) cottonseed deal. The Business Recorder reported that Pakistan may back out of a proposed agreement with Monsanto on BT cottonseed, and that the GOP has signed an agreement with China to transfer its "double-gene technology" for BT cottonseed to Pakistan. China introduced BT cottonseed after signing a letter of intent with Monsanto in 1996, but later developed its own BT cottonseed after re-inventing Monsanto's cottonseed in Chinese laboratories. The GOP signed a letter of intent with Monsanto a year ago, but the GOP is not prepared to pay Monsanto \$16 per acre as a royalty for the introduction of the Bollgard I cottonseed technology (the patent for which has expired). Another issue is that the GOP favors the

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introduction of the latest model of BT cottonseed, Bollgard II. (Comment: Monsanto is reluctant to introduce its latest technology into Pakistan, as the GOP has yet to pass a national Plant Breeders' Rights Bill that complies with international intellectual property rights agreements. End comment.)

14. (SBU) According to the Business Reporter, the Royal Bank of Scotland (RBS) announced that it would seek buyers for its retail and commercial business in Pakistan. RBS reported a loss of \$34.3 billion in 2008, and the sale comes on the heels of RBS's attempted reorganization and rebranding of ABN AMRO, which it bought in 2007. (Comment: A Post contact at the Karachi Stock Exchange (KSE) confirmed a Dawn newspaper report that at least three financial groups are considering purchasing RBS's local operation, although the bank has not made an official statement on the matter. The source said the potential buyers are Arif Habib Bank Limited, JS Bank and Atlas Bank, but the negotiations are still at a "very preliminary stage.")

BANKING AND FINANCE

15. (SBU) Pakistan's circular debt rose from Rs 159 billion in January 2009 to Rs 180 billion at the end of February. The public sector entities in petroleum and gas sectors especially are facing a financial crunch due to the rising circular debt. According to a report by the Business Recorder, the Oil and Gas Development Company Limited is owed Rs 48.254 billion; Sui Southern Gas Company, Rs 24.670 billion; Sui Northern Gas Pipeline Limited, Rs 7.955 billion; Pakistan Petroleum Limited, Rs 9.332 billion; and Mari Gas Company Limited, Rs 5.400 billion. Pakistan State Oil (PSO) is the major fuel supplier that is facing circular debt problems. It is owed Rs 84.2 billion, including Rs 77.1 billion from various clients and Rs 7.088 billion as price differential claims from the GOP on petroleum products. PSO itself owes Rs 73.717 billion to oil refineries. The major clients of these public sector entities are the independent power producers, the Water and Power Development Authority and Pakistan Electric Power Company. Due to the financial crunch, PSO is depending primarily on direct oil imports rather than on oil refineries, which keep all funds as past payments. The Business Recorder reported that PSO is providing oil to Pakistan International Airlines (PIA) only on a cash basis. (Comment: Per its agreement with the IMF, the GOP must have a plan in place to

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clear its circular debt by June, and the GOP is planning on issuing Rs 98 billion of five-year Term Finance Certificates to pay off this debt. End comment.)

¶6. (SBU) The Karachi Stock Market (KSE) 100-index closed at 5,748.10 on March 6, almost unchanged (up only 20.64 points) from its February 27 closing of 5727.46. Overall market capitalization during the week increased from \$22.12 billion to \$22.27 billion, but net foreign portfolio investment outflow was \$4.29 million. (Comment: Post sources have attributed the market's lackluster performance during the week to political uncertainty, and to security concerns following the March 3 terrorist attack on the Sri Lankan cricket team. Analysts said that State Enterprise Fund (SEF) market activity was responsible for the market's stability during the week.)

¶7. (SBU) The State Bank of Pakistan (SBP) has announced plans to provide a partial microfinance credit guarantee for banks that partner with micro-finance banks and micro-finance institutions. The SBP's Development Finance Support Department will review all applications from micro-finance institutions and have authority to approve or deny them. This department would also vet draft loan agreements between commercial banks and micro-finance institutions, issue guarantees to lenders and process lending banks' claims against guaranteed non-performing loans. Lending institutions are responsible for negotiating the terms and structure of the loan (per SBP guidelines) and finalizing the financing agreement. (Comment: More information can be found at: www.sbp.org.pk/MFD/PDF/Micro-Facility.pdf)

¶8. (SBU) The State Bank of Pakistan (SBP) has agreed to extend an Export Financing Scheme loan repayment waiver from March 31 to June ¶30. The waiver and its extension apply to exporters whose loans were overdue as of December 30, 2008. The waiver will not apply in cases where funds due to an exporter have been delayed due to document discrepancy or failure of the exporter to ship the goods in accordance with the requirements of the importer. (Comment: More information can be found at www.sbp.org.pk/sme/d/circulars/2009/CL2.htm)

¶9. (SBU) On February 27, State Bank of Pakistan Governor Syed Salim Raza urged commercial banks to support financing for small and medium-sized enterprises (SMEs). Raza told the SME Credit Advisory Committee that expanding the role of SMEs is a cost effective way to

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create job opportunities and promote economic growth. According to him, SMEs produce about 25 percent of Pakistan's export earnings and contribute around 30 percent of the country's gross domestic product, yet have not had sufficient access to bank financing. The SME Credit Advisory Committee was established in 2008 and has government and private sector committee members. (Comment: More information can be found at www.sbp.org.pk/press/2009/SME-Financing-28-Feb-09.pdf)

¶10. (SBU) According to the March 10 Business Recorder and Geo News, the State Bank of Pakistan amended its rules in an attempt to combat money laundering and terror finance in Pakistan banks. The new SPB rules increase the obligations of banks and development financial institutions to verify their customers through the national identity card database, conduct customer due diligence, and continuously monitor client accounts. (Comment: The State Bank of Pakistan confirmed that it amended its pre-existing customer verification and due diligence rules, based on the recommendations of a World Bank and Asia Pacific Group team which visited Pakistan earlier this year to evaluate anti-money laundering and counter-terrorism finance laws.)

BUSINESS

¶11. (SBU) Pakistan Hotels Association (PHA) officials told Consulate Karachi on March 3 that the hotel industry has been hit hard over the past year by both the economic downturn and the

deterioration in security in Pakistan (a situation highlighted by the recent attack in Lahore) and many hotels will have difficulty breaking even. This tracks with a February 28 article in The News that reported declining profits at five-star hotels in the country, which are reporting occupancy rates as low as 35 percent and cutting back on restaurant services.

¶12. (SBU) A Shaheen Air International official told Consulate Karachi that his company plans to buy seven used and two new Boeing aircraft in preparation for new routes to Mashhad, Iran, and Mumbai. The private airline plans to acquire the used Boeing 737-200 aircraft from a South African airline and to purchase two new Boeing 737-900 ERs by the end of 2010. Shaheen's plans also call for an increase in flights to Dubai, Abu Dhabi, Kuwait and Muscat. The airline, which has a fleet of seven Boeing 737s, currently flies to

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six destinations in the United Arab Emirates, Oman, Qatar and Kuwait.

ENERGY AND POWER

¶13. (SBU) On March 3, an Alternative Energy Development Board (AEDB) official confirmed to Consulate Karachi media reports that the federal Ministry of Water and Power has given AEDB the green light to seek tenders on both a 50MW wind energy project and a 50MW solar energy plant near Gharo in Sindh Province. The coastal belt of Pakistan has a significant, but unexploited, natural wind corridor that some estimate could produce a substantial amount of electricity using wind and solar power.

TRANSPORTATION

¶14. (SBU) According to the Business Recorder, Pakistan, Turkey and Iran have agreed in principle to operate container train service from Istanbul to Islamabad via Tehran, with the possibility of operating passenger trains at a later point. Details were discussed at a meeting of senior railway officials of the three countries held in Tehran in late February, with Pakistan represented by General Manager Railway (Operations) Saeed Akhtar. Akhtar said that it tentatively was agreed to start service around next August 14. Another meeting will be held in April to discuss customs issues. Turkey and Iran are already connected by freight and passenger rail links. (Comment: The General Manager Railways (Operations), Saeed Akhtar, confirmed that this service is in the pipeline and that he attended the meeting in Tehran last month. He said that the second meeting will be held in April in Islamabad.)

PATTERSON